Kerr Addison Mines Limited

Annual Report 1979

Kerr Addison Mines Limited

DIRECTORS:

P. S. Cross
Executive Vice-President
Kerr Addison Mines Limited

Allan Findlay, Q.C.
Partner
Tilley, Carson & Findlay

J. O. Hinds
Executive Assistant to the President
Noranda Mines Limited

William James
President
Kerr Addison Mines Limited

James W. McCutcheon, Q.C.
Partner
Shibley, Righton & McCutcheon

D. G. Neelands, Q.C.
Chairman
Canada Permanent Mortgage Corporation

J. P. W. Ostiguy, O.C.
Chairman
Greenshields Incorporated

Alfred Powis
Chairman and President
Noranda Mines Limited

W. H. Rea, C.M.
Vice-President
The Mutual Life Assurance Company of Canada

W. S. Row
Chairman of the Board,
Kerr Addison Mines Limited

D. E. G. Schmitt
Senior Vice-President — Mines
Noranda Mines Limited

OFFICERS:

W. S. Row
Chairman of the Board

William James
President & Chief Executive Officer

P. S. Cross
Executive Vice-President

I. D. Bayer
Treasurer

J. B. Sage
Secretary

D. A. Lowrie
Vice-President — Exploration

A. H. Cross
Comptroller

OPERATIONS:

The Kerr Addison Mine
J. K. Teal, Manager

Agnew Lake Mines Limited
G. M. Deutman, Manager

Mogul of Ireland
P. S. Cross, Chairman
& Managing Director
W. E. Hitchman, Manager

HEAD OFFICE AND EXPLORATION OFFICE:

P.O. Box 91
Commerce Court West
Toronto, Ontario
M5L 1C7

REGISTRAR AND TRANSFER AGENTS:

Canada Permanent Trust Company, Toronto
Registrar & Transfer Company, New York, N.Y.
and Jersey City, N.J.

ANNUAL MEETING OF SHAREHOLDERS:

Wednesday, April 30, 1980, 12:00 noon
in Commerce Hall, Commerce Court West,
King and Bay Streets,
Toronto, Ontario.

Financial Summary:

	1979	1978	1977	1976	1975
Millions of Dollars					
Production revenue	$ 54.8	$ 40.8	$ 44.5	$ 38.4	$ 25.7
*Net income (loss)	(5.7)	15.6	8.4	7.1	8.4
Working capital (deficit)	39.6	(1.0)	8.9	32.9	34.0
Dollars Per Share					
*Net income (loss)	$(0.61)	$ 1.68	$ 0.90	$ 0.77	$ 0.90
Dividends declared	.10	.50	.50	.50	.50

*Restated for 1975 to 1978

The Gold Picture:

Weekly Average Gold Price, Second Fixing — London Gold Market

Directors' Report to the Shareholders

In September 1979, the Company announced that it was curtailing mining operations at the Agnew Lake uranium property, located west of Sudbury, Ontario. Under the curtailment plan, mining will be discontinued during the second quarter of 1980 and the property will be operated on a salvage leach basis. Leaching and milling operations are expected to continue at a diminishing level for several years, or as long as it is economic to recover uranium from the inventory of broken rock in underground stopes and on the surface stockpile. The property will then be rehabilitated and closed.

As a result of this decision, the accumulated expenditures and costs associated with the Agnew Lake property, which amounted to $59.5 million, net of income tax credits, were written-off against 1979 operations. In determining the amount of this write-off, consideration was given to the quantity of uranium which will be produced during the salvage leach period, the estimated expenditures for continuing operations, rehabilitation and mine closure and the uranium loan and delivery commitments. The curtailment of operations has been proceeding according to plan and, the Company feels that it has adequately provided for all future costs associated with the property.

Due to this special charge, the Company incurred a net loss of $5.7 million, or 61 cents per share in 1979, compared to restated net income of $1.68 per share in 1978, as follows:

	1979	1978 (Restated)
Profit before special items	$ 32,352,000	$ 13,404,000
(Deduct) add special items:		
Agnew Lake write-off	(59,464,000)	
Other items	21,434,000	2,205,000
	(38,030,000)	2,205,000
Net (loss) income	$ (5,678,000)	$ 15,609,000
Net (loss) income per share	$(0.61)	$1.68

Other special items in 1979 included gains from two property disposal transactions. Effective November 1, 1979, the Company sold one-quarter of its interest in the Canadian Hunter Joint Venture gas and oil properties and assets to Domtar Energy Inc. Proceeds from the sale amounted to $34.5 million and resulted in an after-tax gain of $17.1 million. In May 1979, the Company sold its interests in the Grum and Swim Lakes mining claims, located in the Yukon Territory, together with its shares of Vangorda Mines Limited, to Cyprus Anvil Mining Corporation for a total consideration of $14.0 million. The after-tax gain on this disposal was $4.2 million.

Production revenue and operating earnings improved over those of the previous year due to higher gold, zinc and lead prices and, from increased production at the Canadian Electrolytic Zinc reduction plant.

On November 16, 1979, the Company acquired a 27.3% interest in the common shares of Zinor

Directors' Report to the Shareholders (continued)

Holdings Limited through a one-for-one share exchange for common shares of Noranda Mines Limited. The Company follows the equity method of accounting for its investment in Zinor. The principal asset of Zinor at December 31, 1979 was its 23.6% interest in the common shares of Noranda Mines Limited and, Zinor accounts for this investment by the equity method. As a result, the Company's share of earnings of associated companies amounted to $24.7 million in 1979 and, its 1978 net income was retroactively restated to $15.6 million, or $6.0 million higher than previously reported.

The Company's financial position at December 31, 1979, showed considerable improvement over the previous year-end. Working capital increased by $40.5 million and the uranium loan was reduced to a manageable level. Funds generated from operations increased to $17.4 million and proceeds from the property transactions discussed previously, totalled $48.5 million. Major expenditures included $19.6 million associated with the Agnew Lake property and, $9.1 million on the Canadian Hunter Joint Venture programmes. During 1979, 1,400,000 pounds of uranium concentrates were purchased. Funds held in escrow, which amounted to $44.5 million at December 31, 1978, were used to partially finance these purchases. A total of 1,237,000 pounds of concentrates were returned to Eldorado Nuclear Limited, reducing the uranium loan balance to 717,500 pounds at December 31, 1979.

The Company paid a dividend of 10 cents per share during the first quarter of 1979 and, subsequently, omitted further dividend payments for the present time. Quarterly dividends totalling 50 cents per share were paid in 1978.

Production of gold from the Kerr Addison mine at Virginiatown, Ontario, declined to 62,300 ounces in 1979 produced from 193,000 tons of ore grading 0.33 ounces of gold per ton, compared to 83,200 ounces in 1978 produced from 256,000 tons of similar grade ore. Operating earnings increased due to the strong market for gold during 1979 when the average second fixing on the London Gold Market was $307 (U.S.) per ounce, compared to $193 (U.S.) per ounce during the previous year. By year-end, the gold price had reached $500 (U.S.) per ounce, reflecting inflationary expectations due to higher OPEC oil prices and international political pressures resulting from events in Iran and Afghanistan. This higher level of gold prices has allowed the Virginiatown operation to maintain gold reserves at 110,000 ounces, a slight decline from the 120,000 ounces which were estimated at the previous year-end. The Company has been concentrating on gold exploration programmes in the general area of the mine, as it has excess milling capacity available.

Production from the 75% owned Mogul of Ireland zinc-lead mine, located in County Tipperary, Republic of Ireland, amounted to 673,000 tons grading 5.6% zinc and 3.2% lead, compared to 722,000 tons grading 5.9% zinc and 2.9% lead in 1978. Operating profits improved over those of the previous year due to higher zinc and lead prices. Proven reserves at year-end were 2.2 million tons grading 5.6% zinc and 2.6% lead. Due to the expected short term life of this mine and the uncertainty as to whether metal prices in the near term will be sufficient to permit the Company to recover the carrying value of its investment in Mogul, Kerr Addison provided a reserve against its share of Mogul's 1979 profits.

The 9.8% owned Canadian Electrolytic Zinc reduction plant in Valleyfield, Quebec, operated at a rate of 602 tons of zinc slab per day, or 92% of plant capacity, compared to a production rate of 73% during 1978. The plant demonstrated during periods in 1979, that its annual capacity was 240,000 tons, compared to designed capacity of

Aerial view of the zinc reduction plant of Canadian Electrolytic Zinc Limited, located on the St. Lawrence River at Valleyfield, Quebec.

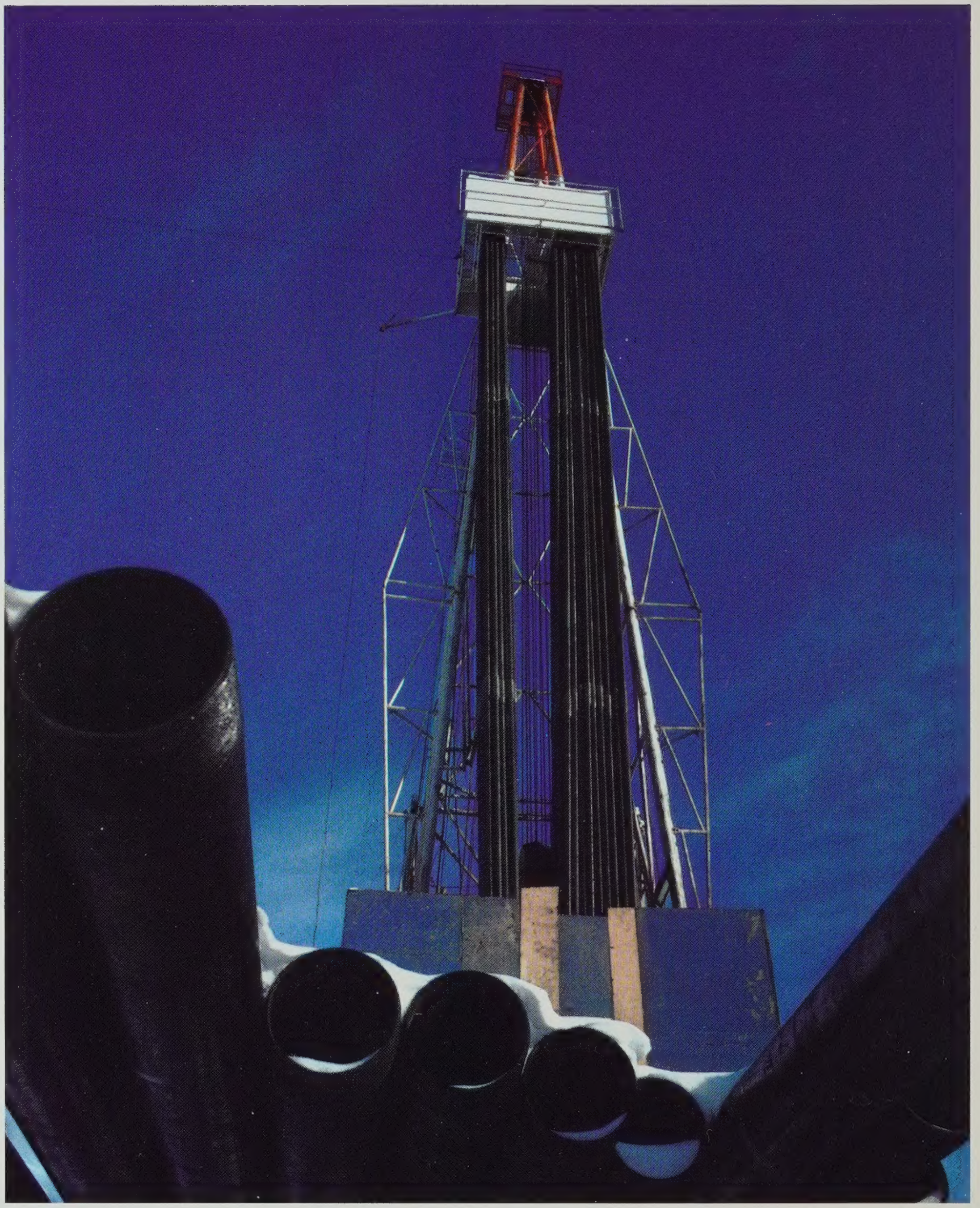
Directors' Report to the Shareholders (continued)

225,000 tons. Strong demand for zinc during the year permitted the plant to operate at the higher rates and this resulted in improved earnings. In 1980, the plant is expected to operate at near capacity levels, although operating margins are expected to be adversely affected by the current shortages in zinc concentrate supplies.

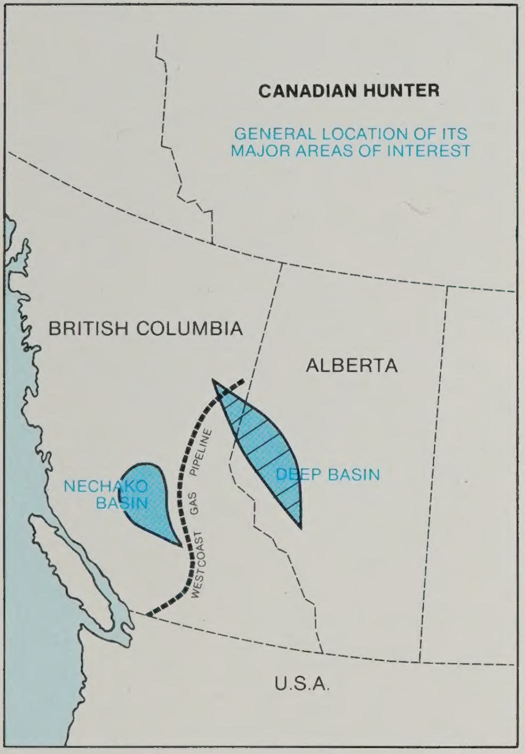
The Canadian Hunter Joint Venture continues to concentrate its exploratory drilling activity in the Elmworth and adjacent Deep Basin areas in Alberta and British Columbia. A major portion of development and reserve delineation drilling in 1979 was also done in Elmworth-Wapiti and other Alberta Deep Basin accumulations. There are now 76 Canadian Hunter interest wells along the Falher productive trend in Elmworth-Wapiti. Additional commercial gas accumulations in the Cadotte and Cadomin formations have also been partially delineated in these field areas.

Canadian Hunter participated in the drilling of 124 exploration and development wells in 1979, which resulted in production capability being found in 23 oil wells and 76 gas wells, giving an overall drilling success ratio of 80%.

Net production of oil and natural gas liquids averaged 1,035 barrels per day. Average gas production was 20.3 million net cubic feet per day. Gas sales through the Elmworth and Wapiti plants (Hunter's interest — approximately 50%) commenced on November 1, 1979 with production during the first year limited to an average of 30 million cubic feet (MMcf) per day from each plant. This will be increased from November 1, 1980 when the contract rate moves to a reserve basis of 1 MMcf per day for each 7,300 MMcf of reserves. At South Gold Creek, about 50 miles southeast of Elmworth, three additional wells were drilled for gas sales commencing early in 1980 at an initial rate of 8 MMcf per day (Hunter's share — 1.9 MMcf per day).



Canadian Hunter well drilling in Deep Basin, Alberta.



Gas processing plant operated by Canadian Hunter at Elmworth, Alberta. (on stream November, 1979).

Directors' Report to the Shareholders (continued)

During 1979, land acquisitions by Hunter at Alberta and British Columbia Crown sales totalled 153,000 net acres. Effective October 1, 1979, its interests in wells and undeveloped lands in the Lloydminster heavy oil area were traded to Home Oil in return for a net 118,000 acres of exploratory lands held by Home in the British Columbia Deep Basin area. Hunter's land holdings at year-end totalled 2.1 million net acres.

Shortly after the year-end, exploration rights were acquired on 4.8 million acres of Crown permits in the Nechako Basin in the central interior of British Columbia. Hunter is committed to a $27.5 million expenditure on geophysical work and drilling on these lands over the next five years.

Esso Resources' $150 million farm-in on Hunter lands will be expended by mid-1980, at which time Kerr Addison's interest in the Canadian Hunter Joint Venture will have been reduced to approximately 11.1%. Kerr Addison's share of gas reserves at December 31, 1979, before royalty and after allowance for the maximum interest to be earned by Esso, was 71 billion cubic feet proven and 131 billion cubic feet proven plus probable.

Turning again to the Agnew Lake operation, the development of a production unit with an estimated annual capacity of one million pounds of uranium concentrate commenced at Agnew Lake in 1976. Tests conducted prior to making the production decision indicated that a bacterial leaching system was suitable for extracting uranium from the Agnew Lake ores and, this process was incorporated into the design of the mining and milling plant. However, the leaching process did not perform as expected. During the past two years the Company has made a number of major changes in an attempt to improve the extraction process. Despite these efforts, yields of uranium concentrate continued to be substantially below the results obtained during the earlier feasibility tests and, production during 1978 and 1979 was limited to 400,000 and 448,000 pounds, respectively.

In September 1979, the Company determined that uranium extraction rates could not be increased to economic levels. Prior to the decision to curtail operations, the Company carried out studies on changing the operation to a more conventional mining and uranium recovery plant. These studies confirmed that the indicated grades of the remaining reserves were too low to justify additional investment in the property.

Agnew Lake is an example of the risks inherent in the mining business. The Company made a sizeable investment in an unsuccessful attempt to apply new technology to a low grade deposit. Despite the substantial loss incurred on the Agnew Lake property, the financial position of the Company is sound. This is due primarily to its excellent assets and the strong metal markets which existed during the past couple of years.

Kerr Addison is continuing to emphasize exploration as a means to expanding its mineral base. As an alternative, the Company's financial resources allow it to actively seek acquisitions of merit. In the interim, its equity investment in Zinor Holdings Limited will provide a broad base for future earnings.

On behalf of the Board,

William James,
President.

Toronto, Canada
February 15, 1980

The Kerr Addison gold mine at Virginiatown, Ontario — in 1956, operating at 4,500 tons per day.

From 1938 to 1979, it has produced 35.7 million tons of ore at an average annual rate ranging from 4,556 tons per day in 1960 to 529 tons per day in 1979. Total gold production amounted to 9.9 million ounces having a realized value of $454.4 million (C.F.).

Kerr
Addison
Mines
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Report on Mining Operations

KERR ADDISON MINE

The Kerr Addison gold mine produced 192,936 tons of ore during 1979, averaging 529 tons per day at a grade of 0.33 ounces of gold per ton. Production amounted to 62,332 ounces of gold having a realized value of $22.08 million, an increase of 16% over the previous year.

Mining operations were carried on between the 300 and 4200 levels. The flow ore zone produced 58% of the mill feed having a grade of 0.48 ounces per ton with the carbonate ore zone providing the balance at a grade of 0.12 ounces per ton. Square-set mining methods accounted for 58% of the tonnage broken, shrinkage contributed 22% with the balance coming from the cut and fill operations.

Operating costs per ounce of gold produced increased 17% over those of 1978. Labour costs increased 15% and were 71% of operating costs.

As a result of the increasing price of gold, ore reserves and ore potential are continually being reviewed. At December 31, 1979, mineable ore reserves with dilution allowance were estimated at 444,926 tons grading 0.25 ounces of gold per ton resulting in an increase of 121,889 tons after the milling of 192,936 tons. These reserves should ensure continued operation at least through to the end of 1981.

The total work force at the property was reduced from 379 persons to 330 at year-end.

MOGUL OF IRELAND LIMITED
(Kerr Addison 75% Interest)

During 1979, the Mogul mine milled 673,353 tons of ore at a grade of 3.15% lead and 5.57% zinc, producing in concentrates 14,611 tons of lead and 31,379 tons of zinc, resulting in recoveries of 66.07% and 82.95% for lead and zinc respectively. Throughput was 6.7% below that of the previous year while the combined ore grade was approximately the same.

Mine development continued in the down-dip extensions of the "B" and "G" Zones and in the "G" Zone pillar extraction areas. Stope preparation work commenced in "K" Zone. Total development advance was 11,888 feet. Underground diamond drilling totalled 16,805 feet, comprising 137 hole completions. Development contributed 17% of the ore broken. Waste rock removed amounted to 38,558 tons.

Total ore broken from all sources amounted to 633,406 tons, a decrease of 9% from last year. The "B" and "K" Zones provided 59% with the balance coming from the "G" Zone. Pillar recovery accounted for 22%. Longhole drill footage totalled 193,108. Backfill placed underground amounted to 94,035 tons. The drilled off reserve at year-end was 154,143 tons.

Total operating costs per ton milled including exploration and marketing increased 19.6% over the previous year. Power costs alone increased 30% during the year and accounted for 12.2% of operating costs. Expenditures on labour and related benefits increased 15.7% and were 51.8% of direct operating costs. The inflation rate in Ireland was 16.0% compared to 7.9% for 1978.

Mineable ore reserves with dilution at year end were as follows:

Proven Ore	S.D. Tons	% Lead	% Zinc
"G" Zone:	798,003	2.22	6.93
"B" Zone:	886,468	3.62	4.59
"K" Zone:	353,396	1.09	4.75
Broken:	12,650	3.74	7.30
	2,050,517	2.64	5.54
Probable Ore			
"G" Zone:	22,392	1.38	9.68
"B" Zone:	77,630	2.53	4.84
"K" Zone:	18,360	0.70	5.31
	118,382	2.03	5.83
Total Proven and Probable:	2,168,899	2.61	5.56
Possible Ore			
"G" Zone:	217,197	3.18	4.86
"B" Zone:	349,943	3.48	3.82
"K" Zone:	635,804	2.04	4.95
	1,202,944	2.66	4.61
Total Reserves:	3,371,843	2.63	5.22

At year-end the total work force including contractors and exploration personnel was 508, an increase of 10 from last year. The annual turnover rate was 10%. The current National Wage Policy will expire in August of 1980.

AGNEW LAKE MINES LIMITED

On September 21, 1979, the decision was made to curtail development and mining operations at Agnew Lake Mines Limited and place the operation on a salvage leach basis. This action was necessary as uranium extraction, since initial production commenced in June 1977, has been substantially below expectations, resulting in production costs exceeding the market value of the uranium recovered. Since September, mining activity has been gradually reduced, completing the mining of a number of stopes already developed. Mining operations will be completed early in 1980, with leaching continuing for a period of approximately two years.

During 1979, production totalled 448,000 pounds of uranium. The surface leach pile provided approximately 43% of the uranium going into solution, with the balance coming from the underground stopes. At year-end, there were 4,300,000 tons of material under leach. This figure will increase to approximately 5,000,000 tons when mining is completed early in 1980. Solution inventory was 370,000,000 litres containing 84,000 pounds of uranium.

Mine development totalled 29,047 feet, comprising 25,047 feet of trackless drives and 4,000 feet of raising.

Extractable proven and probable reserves, with dilution, at December 31, 1979, were estimated at six million tons in place, having a uranium content of one pound per ton.

Long hole drilling for production and other requirements totalled 361,522 feet. The total ore broken was 941,075 tons. Ore brought to surface and placed on the leachpile was 404,478 tons.

Mine ventilation capacity was increased to 820,000 C.F.M. during the year with the installation of a 110 inch 1,000 h.p. fan which provided more than adequate ventilation to maintain dust and radon levels well below permissible limits. Environmental standards were also maintained within acceptable limits throughout the year.

The ion exchange and solvent extraction plants performed throughout the year at an average efficiency of 98.7% with an availability of 95.8%. Substantial improvements were affected during the year in leaching technology employed both on the surface leachpile and in the underground flood leach stopes.

At the end of the year the work force totalled 284 persons including contractors, a decrease of 250 from last year. This substantial reduction resulted from the curtailment of development and mining activities in September. Excellent co-operation has been received from mining companies in the Elliot Lake and Sudbury areas, as well as from companies in the Noranda Group, in the placing of personnel in other employment.

EXPLORATION

During 1979, the exploration department's project expenditures were about $3.5 million, of which forty percent was recovered from joint venture participants. Canadian exploration activities were concentrated mainly on gold prospects in the Provinces of Ontario and Quebec, as well as on base metal exploration in British Columbia. A lesser emphasis was placed on uranium projects in Saskatchewan and the Northwest Territories and, on the Fernandez Joint Venture in New Mexico, U.S.A.

Several small, known, gold deposits located near the Kerr Addison mine at Virginiatown, Ontario are being re-evaluated in view of the current market price for gold.

The support of the directors and officers during the past year is very much appreciated and, on their behalf, I would like to thank all employees of the Kerr Addison group for their continuing efforts and achievements. The encouraging future of this Company is a tribute to their loyalty and interest.

Respectfully submitted,

P. S. Cross,
Executive Vice-President.

Toronto, Canada
February 15, 1980

Kerr Addison Mines Limited

(Incorporated under the laws of Ontario)

Consolidated Balance Sheet

December 31, 1979
(with comparative figures at December 31, 1978 — note 6)

ASSETS	1979	1978
Current:		
Cash, term deposits and short-term notes	$ 21,922,000	$ 4,921,000
Marketable securities and short-term investments, at cost (quoted market value 1979 — $6,888,000; 1978 — $3,546,000)	3,111,000	3,111,000
Concentrates, bullion and metals awaiting settlement, in transit and on hand	18,803,000	13,795,000
Accounts and interest receivable	5,125,000	2,408,000
Supplies and materials, at cost	3,253,000	3,098,000
Prepaid expenses	198,000	232,000
Total current assets	52,412,000	27,565,000
Investments:		
Associated companies (note 6)	74,943,000	54,855,000
Sundry, at cost	764,000	811,000
	75,707,000	55,666,000
Fixed:		
Property, plant and equipment, at cost	46,290,000	45,678,000
Less accumulated depreciation and depletion	34,633,000	32,205,000
	11,657,000	13,473,000
Deferred exploration and development expenditures:		
Agnew Lake property (note 2)		77,733,000
Gas and oil properties (note 5)	29,336,000	29,630,000
Grum Project		8,112,000
Other		642,000
	29,336,000	116,117,000
Deferred income taxes	4,646,000	
Other:		
Proceeds from sale of borrowed uranium concentrate, in escrow (note 2(c))		44,465,000
	$173,758,000	$257,286,000

(See accompanying notes to consolidated financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1979	1978
Current:		
Bank loan		$ 12,860,000
Accounts payable and accrued charges	$ 8,478,000	12,740,000
Income and mining taxes payable	4,375,000	2,942,000
Total current liabilities	12,853,000	28,542,000
Provision for mine closures (notes 2 and 3)	39,477,000	2,000,000
Deferred income taxes		10,697,000
Deferred revenue (note 2(d))		88,102,000
Minority interest in subsidiaries	2,040,000	1,742,000
Shareholders' equity (note 7):		
Share capital	41,627,000	41,566,000
Retained earnings	80,009,000	86,618,000
	121,636,000	128,184,000
Less the company's pro rata interest in its shares held by associated companies	(2,248,000)	(1,981,000)
	119,388,000	126,203,000
	$173,758,000	$257,286,000

On behalf of the Board: William James, Director P. S. Cross, Director

Auditors' Report

To the Shareholders of Kerr Addison Mines Limited:

We have examined the consolidated balance sheet of Kerr Addison Mines Limited as at December 31, 1979 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Kerr Addison Mines Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of a subsidiary company, Mogul of Ireland Limited.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change to the equity method of accounting for its investment in an associated company as referred to in note 6, on a basis consistent with that of the preceding year.

Clarkson Gordon, Chartered Accountants
Toronto, Canada, February 18, 1980.

Kerr Addison Mines Limited

Consolidated Statement of Operations

For the year ended December 31, 1979

(with comparative figures for 1978 — note 6)

	1979	1978
Mine operations:		
Value of production	$ 54,846,000	$ 40,771,000
Cost of metal production	34,815,000	28,645,000
	20,031,000	12,126,000
Dividends and interest income	1,062,000	1,689,000
	21,093,000	13,815,000
Deduct (add):		
Administrative and general expenses	624,000	576,000
Outside exploration expenses	2,124,000	2,017,000
Depreciation and depletion	2,580,000	2,568,000
Income and mining taxes (including deferred taxes of $3,447,000 in 1979; $2,255,000 in 1978)	7,902,000	3,627,000
Minority interest in profits of subsidiary companies	545,000	81,000
Foreign currency translation gain	(302,000)	(418,000)
	13,473,000	8,451,000
	7,620,000	5,364,000
Share of earnings of associated companies (note 6)	24,732,000	8,040,000
Profit before the following	32,352,000	13,404,000
Add (deduct):		
Write-off of accumulated expenditures and costs associated with the Agnew Lake uranium property and provision for mine closure (net of deferred income tax reductions — $28,000,000) (note 2)	(59,464,000)	
Gain on sale of interest in gas and oil joint venture (net of deferred income taxes $8,035,000) (note 5)	17,091,000	
Gain on sale of Anvil District, Yukon, mining properties and shares of Vangorda Mines Limited (net of deferred income taxes — $1,175,000)	4,227,000	
Gain on disposal of other assets and marketable securities (net of deferred income taxes 1979 — Nil; 1978 — $350,000)	116,000	2,205,000
Net (loss) income for the year	$ (5,678,000)	$ 15,609,000
Net (loss) income per share (notes 6 and 7)	$(.61)	$1.68

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Retained Earnings

For the year ended December 31, 1979

(with comparative figures for 1978 — note 6)

	1979	1978
Retained earnings at beginning of year, as previously reported	$ 53,032,000	$ 48,155,000
Adjustment for the cumulative effect on prior years of applying retroactively the equity method of accounting for the investment in associated companies (note 6)	33,586,000	27,501,000
Retained earnings at beginning of year, as restated	86,618,000	75,656,000
Add net (loss) income for the year	(5,678,000)	15,609,000
	80,940,000	91,265,000
Deduct dividends (10¢ per share in 1979; 50¢ per share in 1978)	931,000	4,647,000
Retained earnings at end of year	$80,009,000	$86,618,000

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1979

(with comparative figures for 1978 — note 6)

	1979	1978
Source of funds:		
Funds provided from operations	$ 17,350,000	$ 11,376,000
Proceeds from sale of gas and oil properties (note 5)	34,527,000	
Proceeds from sale of Anvil District, Yukon, mining properties and shares of Vangorda Mines Limited	14,003,000	
Dividends from associated companies	4,414,000	1,955,000
Proceeds from sale of fixed and other assets	283,000	5,042,000
Proceeds from issuance of shares for cash	61,000	16,000
Other sources of funds (net)	344,000	285,000
	70,982,000	18,674,000
Application of funds:		
Expenditures on Agnew Lake property (note 2) — Exploration, development and other	21,432,000	32,185,000
Cost of concentrate purchased for return under loan agreement	42,666,000	
Proceeds from sale of concentrate — Borrowed from Eldorado		(14,012,000)
Own production		(14,073,000)
Proceeds from sale of borrowed concentrate placed in (released from) escrow (net)	(44,465,000)	10,400,000
	19,633,000	14,500,000
Expenditures on gas and oil properties (net) (note 5)	9,107,000	8,877,000
Dividends	931,000	4,647,000
Additions to property, plant and equipment	775,000	488,000
	30,446,000	28,512,000
Increase (decrease) in working capital	40,536,000	(9,838,000)
Working capital (deficiency), beginning of year	(977,000)	8,861,000
Working capital (deficiency), end of year	$ 39,559,000	$ (977,000)

(See accompanying notes to consolidated financial statements)

Kerr
Addison
Mines
Limited

Notes to Consolidated Financial Statements

December 31, 1979

1. **Summary of significant accounting policies**

(a) Basis of presentation of financial statements —

The accompanying financial statements include, on a consolidated basis, the accounts of Kerr Addison Mines Limited and its subsidiary companies:

	Percentage ownership
Agnew Lake Mines Limited	100%
Keradamex, Inc.	100%
Kerramerican, Inc. (non-operating)	100%
Normetal Mines Limited	100%
Quemont Mines Limited	100%
Mogul of Ireland Limited	75%

The company follows the equity method of accounting for its investment in Zinor Holdings Limited (see note 6). Under the equity method the investment is initially recorded at cost and adjusted thereafter for the company's pro rata share of earnings less dividends received since the dates of investment.

(b) Exchange translation —

The financial statements of companies outside of Canada have been translated into Canadian dollars as follows: current assets and current liabilities at exchange rates prevailing at the year-end; fixed assets, depreciation and depletion provisions on the basis of rates prevailing at dates of acquisition, and income and expenses (other than depreciation and depletion) at average rates during the year. Exchange gains or losses resulting from such translation practices are reflected in the consolidated statement of operations.

(c) Concentrates, bullion and metals —

Consistent with industry practice, the company records as revenue the value of production of concentrates, bullion, and metals awaiting settlement, in transit and on hand at estimated net realizable value. (See also note 9).

(d) Property, plant and equipment —

Additions to property, plant and equipment are recorded at cost and include previously deferred exploration and development expenditures on properties which have been brought into production. Depreciation and depletion thereon are provided at rates designed to write off the costs over their estimated useful lives which, in the case of property, plant and equipment of Mogul of Ireland Limited have been determined on units of production based on estimated reserves. Substantially all other fixed assets are being depreciated in equal annual amounts over their estimated useful lives.

(e) Exploration and development expenditures —

Minerals —

Mineral exploration and development expenditures are charged against current earnings unless they relate to interests in properties where the reserves have the potential of being economically recoverable, in which case the expenditures are deferred. Upon disposal or abandonment of such interests, the net gain or loss is reflected in the consolidated statement of operations. If the properties are brought into production, deferred exploration and development expenditures relating thereto are reclassified with property, plant and equipment and amortized as explained in note 1(d).

Gas and Oil —

The company participates through joint venture agreements with Noranda Mines Limited and others in certain gas and oil properties held by Canadian Hunter Exploration Limited as trustee.

The company has adopted the full cost method of accounting for its gas and oil activities through the joint venture, whereby all costs relating to the exploration for and development of gas and oil reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties and costs of drilling both productive and non-productive wells.

Substantially all of the gas and oil properties held by the joint venture are considered by management to have been in the exploratory or development stage to December 31, 1979 and accordingly, all expenditures (less revenues) incurred to that date, including interest on funds borrowed to finance the company's participation, are deferred in the consolidated accounts. These costs will be amortized to income by the unit of production method based on estimated proven gas and oil reserves commencing January 1, 1980, the date management considers a commercial level of production to have been attained.

(f) Income taxes —

The company follows the tax allocation method of accounting for income taxes. Under this method, timing differences between reported and taxable income result in deferred income taxes. The principal timing differences relate to exploration and development expenditures and capital cost allowances which are claimed for tax purposes in years which are earlier, or later, than those in which the expenditures are written off and depreciation is charged in the consolidated statement of operations.

2. **Agnew Lake**

(a) Effective August 31, 1979, Agnew Lake Mines Limited (''Agnew Lake'') increased its interest in the Agnew Lake property to 100% by acquiring the 10% minority position in the joint venture for $775,000.

(b) As a result of the decision to curtail operations and ultimately close the Agnew Lake property, a special charge of $59,464,000 has been made against 1979 operations. This charge represents all expenditures and costs associated with the project, net of related deferred income tax reductions, as follows:

	Gross expenditures	Value of uranium produced	Net expenditures
Balance, January 1, 1979	$ 96,798,000	$(19,065,000)	$77,733,000
Expenditures and revenue to September 30, 1979	21,432,000	(13,619,000)	7,813,000
Loss on purchases of uranium concentrate	1,918,000		1,918,000
Estimated expenditures for operations, rehabilitation and closure of mine property, and estimated value of uranium to be produced during salvage leach period	34,000,000	(34,000,000)	—
	$154,148,000	$(66,684,000)	87,464,000
Less estimated deferred income tax reductions			28,000,000
Net write-off of accumulated expenditures and costs associated with the Agnew Lake uranium property and provision for mine closure			$59,464,000

(c) Under the terms of a 1976 loan agreement with Eldorado Nuclear Limited (''Eldorado''), Agnew Lake has borrowed, and delivered to its customers, a total of 2,000,000 pounds of uranium concentrate. To December 31, 1979 it has returned 1,282,500 pounds (45,500, in 1978; 1,237,000 in 1979) of concentrate to Eldorado, thereby reducing the loan balance to 717,500 pounds of concentrate which must be returned, in kind, to Eldorado not later than June 30, 1982.

Interest is payable (at a current rate of 11⅞%) to Eldorado on the loan value of borrowed concentrate (approximately $32,000,000 at December 31, 1979). Interest received by Agnew Lake on funds previously held in escrow, has been applied as a credit against these costs. Net interest expense in 1979 of $4,108,000 (1978 — $4,250,000) is included in the net write-off of expenditures and costs associated with the Agnew Lake mine project.

The agreement also provides that proceeds from the sale of borrowed concentrate in excess of 1,000,000 pounds, be placed in escrow with a Canadian chartered bank until such concentrate is

returned in kind. The $44,465,000 held in escrow at December 31, 1978 was released to the company during 1979 when the loan balance was reduced below this level and the proceeds were used to partially finance the purchase of 1,400,000 pounds of uranium concentrate in 1979.

If Agnew Lake should be unable to meet its obligations to return the borrowed concentrate in kind, Eldorado may purchase concentrate from an outside party and Agnew Lake must reimburse Eldorado for all costs relating to such purchases.

Kerr Addison Mines Limited has guaranteed all obligations of Agnew Lake under this loan agreement.

(d) At December 31, 1978, proceeds from the sale of borrowed concentrate amounting to $88,102,000 were recorded in the consolidated balance sheet as "deferred revenue", to be included (less production costs) in the consolidated statements of operations of future periods as the borrowed concentrate was returned to Eldorado. As a result of the decision to curtail operations at the mine, the "deferred revenue" account effectively became a loan obligation to Eldorado and is reflected in this manner (as part of the "provision for mine closures") in these financial statements.

(e) In addition to its obligation to return the 717,500 pounds of borrowed concentrate to Eldorado by June 30, 1982, Agnew Lake has firm commitments to deliver 450,000 pounds of uranium concentrate to customers during 1980 and 1981. In management's opinion the likelihood of losses being incurred on settlement of these loan and delivery commitments is remote.

3. **Provision for mine closures**

In addition to costs associated with the closure of the Agnew Lake property, the provision for mine closures at December 31, 1979, includes estimated net expenditures to be incurred for reclamation, rehabilitation and closure of other mining properties currently in operation or closed in prior years but for which rehabilitation costs are still being incurred. The balance of $39,477,000 represents the estimated net mine closure expenditures to be incurred in periods after 1980. The $2,000,000 provision for environmental costs included in the consolidated balance sheet at December 31, 1978, has been reclassified in 1979 as part of the provision for mine closures.

4. **Mogul of Ireland Limited**

The remaining life of this subsidiary's mine, based on current reserves, is estimated to be three to five years. On the basis of present cost projections and reserves, it is uncertain whether future levels of prices for zinc, lead and silver will be sufficient to cover total projected costs of mining, including depreciation, depletion and amortization, and estimated mine closure costs. The recovery of the carrying value of the company's 75% share of Mogul's assets, net of liabilities (included in the consolidated balance sheet at December 31, 1979 at approximately $6,800,000) will be dependent, among other things, on the level of metal market prices to be realized during the mine's remaining life.

5. **Gas and oil properties**

The company participates through a joint venture in gas and oil properties in Alberta, British Columbia and Saskatchewan held by Canadian Hunter Exploration Limited as trustee.

Effective November 1, 1979, the company sold one-quarter of its interest in these gas and oil properties for a cash consideration of $34,527,000. The resulting net gain of $17,091,000 has been recorded as income in 1979. This transaction reduces the company's interest in the Canadian Hunter joint venture by approximately 3.7 percentage points to 11.1%.

Under the terms of the joint venture agreements, the company must contribute its share of future expenditures (estimated at $16,000,000 for 1980) on the properties in order to maintain its percentage interest therein.

The company's interest in these gas and oil properties is included in the consolidated balance sheet as deferred exploration and development expenditures which comprise:

	Balance January 1, 1979	Changes during the year	Balance December 31, 1979
Expenditures (net) to acquire original interest	$ 19,750,000		$19,750,000
Share of additional joint venture expenditures	9,987,000	$ 8,629,000	18,616,000
	29,737,000	8,629,000	38,366,000
Share of proceeds on sale of property interest	(2,520,000)	36,000	(2,484,000)
Share of net production revenues	(1,097,000)	(1,076,000)	(2,173,000)
	26,120,000	7,589,000	33,709,000
Bank interest (1978 — $2,474,000)	3,510,000	1,518,000	5,028,000
	$ 29,630,000	$ 9,107,000	38,737,000
Cost of properties sold in 1979			9,401,000
			$29,336,000

These expenditures will be amortized to income by the unit of production method based on estimated proven gas and oil reserves commencing on January 1, 1980, the date management considers a commercial level of production to have been attained.

6. **Zinor Holdings Limited**

On November 16, 1979, the company acquired a 27.3% interest in the common shares of Zinor Holdings Limited (''Zinor'') in consideration for 5,190,666 common shares of Noranda Mines Limited (representing a 5.93% interest in Noranda's outstanding share capital) which it held on that date, in a one-for-one share exchange.

Management believes the company is able to exercise significant influence over Zinor and has concluded it is appropriate that this investment be accounted for by the equity method.

Zinor's principal asset is its investment in common shares of Noranda Mines Limited which at December 31, 1979 amounted to 23,980,202 shares, or 23.6% of the outstanding common shares of Noranda. Zinor follows the equity method of accounting for this investment.

Because the consideration given to acquire its investment in the shares of Zinor was the long-term investment in Noranda, management believes this continuity of interests should be recognized and the most informative presentation of the company's consolidated financial position, changes therein and operating results is attained by applying the equity method of accounting on a retroactive basis in order to present the same position at December 31, 1979 as would have resulted had the company been able to follow the equity method of accounting for its previous direct holding in Noranda, which was formerly carried at cost.

Accordingly, the investment in Zinor has been included in the balance sheet in a manner consistent with a step-by-step acquisition of long-term intercorporate investments, and the results of operations and balance of retained earnings as previously presented prior to November 16, 1979 have been restated on this retroactive basis. Differences between the cost of shares acquired and the underlying book value at the respective dates of acquisition are being amortized over the lives of the assets to which such differences were attributed.

As a result of Zinor's acquisition of treasury shares of Noranda for a cash consideration of $19 per share, Kerr's indirect interest in Noranda increased from 5.93% to 6.46% as at November 16, 1979. The difference between the cost of these treasury shares and the underlying net book value at that date is also being amortized over the lives of the assets and liabilities to which it is attributed.

The aggregate of such purchase price differences at December 31, 1979 amounted to $6,309,000 ($1,939,000 in 1978). The effect of this retroactive restatement has been to increase the carrying value of the company's investment and the balance of retained earnings by $33,586,000 at the end of 1978, and $26,156,000 at the end of 1974, and to increase previously reported net income and earnings per share as follows:

	1978	1977	1976	1975
Net income (loss) (in thousands):				
As previously reported	$ 9,649	$6,186	$6,774	$8,952
As restated	$ 15,609	$8,370	$7,128	$8,375
Net income (loss) per share:				
As previously reported	$1.01	$.65	$.71	$.94
As restated	$1.68	$.90	$.77	$.90

In addition to the restatement of prior years' figures resulting from the retroactive application of equity accounting, certain of the 1978 figures presented for comparison purposes have been reclassified to conform to the presentation adopted for 1979.

Notes to Consolidated Financial Statements (continued)

7. **Shareholders' equity**

(a) Details of share capital are as follows:

	1979	1978
	Number of shares	
Authorized —		
Common shares without par value	12,500,000	1,000
Class A shares without par value		11,500,000
Class B shares without par value		999,000
	12,500,000	12,500,000
Issued and outstanding —		
Common	9,550,174	
Class A		9,063,524
Class B		481,425
	9,550,174	9,544,949
Company's pro rata interest in its shares held by associated companies	254,441	250,173
Dividends declared during year	$ 954,000	$ 4,772,000
Less company's pro rata share of dividends paid to associated companies	(23,000)	(125,000)
Net charge to retained earnings	$ 931,000	$ 4,647,000

On April 24, 1979 the shareholders approved a special resolution amending the articles of the company by:

(i) reclassifying the Class A and Class B shares of the company both issued and unissued, as common shares and,

(ii) providing that the directors may determine, with respect to any cash dividend declared payable, that shareholders resident in Canada and in specified jurisdictions outside Canada may elect to receive, in lieu of such cash dividend, a stock dividend payable in shares of the company.

(b) In 1979, 5,225 shares were issued under the company's stock option plan for $61,362 cash. At December 31, 1979, options on 61,275 shares were outstanding, exercisable at prices varying from $8.14 to $13.42 for periods up to 1988.

8. **Contingent liabilities**

(a) The company along with Agnew Lake Mines Limited is a defendant in an action commenced in the Supreme Court of Ontario by Q.M.G. Holdings Inc. arising from the sale in 1974 by Q.M.G. Holdings Inc. to Kerr Addison Mines Limited of its 10% share interest in Agnew Lake Mines Limited. Q.M.G. Holdings Inc. claims damages in excess of $13,500,000 for alleged misrepresentation. The company is defending the action and in the opinion of counsel the company has a good defense to the action on the merits.

(b) Government environmental legislation and regulations may require that the company incur future expenditures for the rehabilitation of mining properties that have been closed. While it is still not possible to develop specific plans for such rehabilitation or costs relating thereto, management believes that adequate provision for such costs has been included in the provision for mine closures.

9. **Forward gold sales**

The company has entered into agreements to sell forward 10,600 ounces of gold from 1980 production, for delivery during the first half of 1980, at an average price of U.S. $433.00 per ounce. Bullion on hand at December 31, 1979 was valued at this unit price.

10. **Subsequent event**

In February, 1980, all the shareholders of Zinor Holdings Limited subscribed for additional common shares of Zinor in proportion to their existing holdings to enable Zinor to repay its bank loan. The company's portion amounted to 1,367,390 shares at a subscription price of $19 cash per share.

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